

## Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 IO-13 ISO-00 CIAE-00 DODE-00 PM-05  
H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01  
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IGA-02 /091 W  
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AMEMBASSY PARIS  
AMEMBASSY BRUSSELS  
USMISSION GENEVA

C O N F I D E N T I A L ACCRA 5988

USEEC, USOECD, USMTN

DEPT ALSO PASS DIA, LAGOS ALSO FOR AGATT

E.O. 11652: GDS  
TAGS: EALR, ECON, GH  
SUBJ: GHANA'S FY 77-78 BUDGET

REF: A ACCRA 5904, B ACCRA 5703 (NOTAL), C ACCRA 5683(NOTAL)  
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D ACCRA 5538(NOTAL), E 76 ACCRA 5658

1. SUMMARY. GOG FY 78 BUDGET, RELEASED JULY 29, FOLLOWS  
CLOSE ON HEELS OF APPOINTMENT OF NEW COMMISSIONER FOR FINANCE.  
RESULTANT DOCUMENT APPEARS TO HAVE LITTLE FOCUS AND SEEMS  
TO HAVE BEEN PIECED TOGETHER WITH VIEW TOWARDS DEADLINE  
RATHER THAN GHANA'S ECONOMIC WELLBEING. BUDGET FORE-

CASTS INCREASED REVENUES AND EXPENDITURES, BUT DECREASED DEFICIT. PRESENT RUNAWAY INFLATION MENTIONED IN PASSING, WITH ONLY PRESCRIPTIONS BEING HOLDING DOWN CENTRAL BANK FINANCING OF BUDGET AND RELAXATION OF TRADE CONTROLS. LIKELIHOOD IS BUDGET WILL, AS IN YEARS PAST, FURTHER FAN FIRES OF INFLATION. PRESS HAS OFFERED RATHER MILD PRAISE OF BUDGET, BUT BANKERS AND OTHER EXPERIENCED OBSERVERS OF ECONOMY ARE NOT IMPRESSED. THEY EXPECT GHANA'S ECONOMY TO CONTINUE ITS DOWNWARD COURSE. END SUMMARY.

2. COMMISSIONER FOR FINANCE APPIAH ANNOUNCED GOG'S FY 78 BUDGET JULY 29 (REFTEL A). BUDGET DOCUMENT IS THINNER AND LESS DETAILED THAN LAST YEAR'S. ONLY CONCESSION TO DETAIL IS VAGUE LISTING OF REVENUES AND EXPENDITURES, AND SUBSEQUENT DEFICIT. BALANCE OF DOCUMENT IS GIVEN OVER TO EXPLANATIONS OF CHANGES IN VARIOUS TAXES AND CUSTOMS DUTIES AND CAPSULE DESCRIPTIONS OF THE DEVELOPMENT PLANS OF GOVERNMENT MINISTRIES AND DEPARTMENTS.

3. NEW BUDGET PLANS FOR MORE THAN DOUBLING OF TOTAL EXPENDITURES TO CEDIS 2.5 BILLION (DOLLARS 2.2 BILLION) BUT A NET REDUCTION IN DEFICIT. GOG ACTUAL DEFICIT FOR FY 76-77 WAS OVER CEDIS 800 MILLION (DOLLARS 695 MILLION). NEW BUDGET PROJECTS DEFICIT OF CEDIS 376 MILLION (DOLLARS 327 MILLION), BUT THIS DEPENDS ON GOVERNMENT REVENUES INCREASING BY MORE THAN 71 PERCENT. IF CONFIDENTIAL

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REVENUES SHOULD GROW BY A MORE REALISTIC, BUT STILL OPTIMISTIC RATE OF EVEN 20 PERCENT, DEFICIT WOULD BE OVER CEDIS 90 MILLION (DOLLARS 783 MILLION). BUDGETS IN PAST YEARS HAVE MADE PROJECTIONS FOR INCREASED REVENUE, ONLY TO SEE REVENUES FALL SHORT OF EXPECTATIONS WHILE EXPENDITURES EXCEED THEM. WE THINK THIS PATTERN LIKELY TO CONTINUE, DESPITE COMMISSIONER APPIAH'S DESIRE TO ELIMINATE AT LEAST CURRENT ACCOUNT DEFICIT (REFTEL C). CURRENT POLITICAL SITUATION MITIGATES AGAINST GOG MAKING AND STICKING TO DIFFICULT POLICIES NEEDED TO HOLD DOWN DEFICITS.

4. INFLATION, WHICH WAS GOG'S PREOCCUPATION IN LAST BUDGET, IS MENTIONED IN PASSING THIS YEAR. ONLY PRESCRIPTIONS OFFERED FOR ITS CONTROL ARE RELAXATION OF TRADE CONTROLS AND HOLDING DOWN CENTRAL BANK FINANCING OF BUDGET. WHILE THESE MEASURES COULD COMPRISE PART OF AN ANTI-INFLATIONARY POLICY, THEY DO NOT IN THEMSELVES COMPRISE A CREDIBLE ATTACK ON INFLATION. IN FACT, WE EXPECT RELAXATION OF TRADE CONTROLS TO RESULT IN HIGHER PRICES FOR IMPORTED GOODS AND, IN SHORT-TERM AT LEAST, AN INCREASED RATE OF INFLATION. OTHER FACTORS CONTRIBUTING TO RISE IN INFLATION RATE WILL BE RECENT 100 PERCENT IN-

CREASE IN MINIMUM WAGE, INCREASED GOVERNMENT SPENDING AND CONTINUING BUDGET DEFICITS.

5. NEW BUDGET IS NOT A RIGOROUS DOCUMENT. IT LACKS DETAILS AND DEALS IN GENERALITIES. IT HAS LOOK OF HAVING BEEN PUT TOGETHER TO MEET DEADLINE, RATHER THAN TO MEET GHANA'S ECONOMIC NEEDS. WE THINK THIS A RESULT OF COMMISSIONER APPIAH'S COMING INTO BUDGETING PROCESS AT VERY LATE STAGE. APPIAH'S MARK IS ON BUDGET, BUT IT IS CLEARLY NOT HIS. WE EXPECT HE WILL WORK AROUND BUDGET AS HE ATTEMPTS TO BRING GOG'S ECONOMIC POLICIES INTO LINE WITH GHANA'S ECONOMIC REALITY.

6. GHANA PRESS GAVE BUDGET BIG PLAY IN JULY 30 EDITIONS, CONFIDENTIAL

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BUT EDITORIALS HAVE BEEN RESTRAINED IN THEIR PRAISE, WITH MOST WRITERS TAKING A "LET'S WAIT AND SEE" ATTITUDE. MOST POPULAR ITEM IN BUDGET IS REDUCTION IN TAXES ON CARS AND COMMERCIAL VEHICLES#1

7. WHILE IT STILL EARLY, INITIAL REACTIONS FROM EMBASSY CONTACTS INDICATE THAT BUDGET NOT GOING OVER WELL WITH BANKERS AND OTHER OBSERVERS OF ECONOMIC SCENE. WHEN ASKED ABOUT BUDGET, ONE BANKER REMARKED HE HAD NOT READ JULY 29 BUDGET DOCUMENT BECAUSE HE EXPECTED REAL BUDGET TO EMERGE THROUGH DECREES AND DIRECTIVES PUBLISHED IN GHANA GAZETTE (GHANA'S FEDERAL REGISTER) AS GOG GRAPPLES WITH ECONOMIC REALITIES IN WEEKS AND MONTHS AHEAD.

8. IN LIGHT OF NEW BUDGET, IT DIFFICULT TO FIND ENCOURAGEMENT IN VARIOUS ECONOMIC REFORM MEASURES RECENTLY ANNOUNCED BY GOG. ALTHOUGH MOVES TOWARD TRADE LIBERALIZATION AND DECONTROL OF ECONOMY ANNOUNCED SEVERAL WEEKS AGO (REFTEL D), COULD BE VIEWED AS FAVORABLE IN THEMSELVES, WITHOUT NEEDED EXCHANGE RATE ADJUSTMENT AND GOVERNMENT FISCAL RESTRAINT THESE MEASURES COULD ACTUALLY BE DETRIMENTAL TO ECONOMY. GOG WILL SEEM UNWILLING TO FACE BOTH EXCHANGE RATE AND INFLATION PROBLEMS. AS A RESULT, EVEN WITH FORECASTS OF RECORD YEAR IN COCOA EARNINGS, IT DIFFICULT TO ENVISION ECONOMY STABILIZING AND EMBARKING ON A REAL GROWTH PATH.

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## Message Attributes

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**Review Markings:**  
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